

ANALYSIS OF AMENDED BILL

Author: Assy. Rev. & Tax. Comm. Analyst: Jeani Brent Bill Number: AB 1634
Related Bills: AB 3086 (Stats. 1994, Ch. 1049) Telephone: 845-3410 Amended Date: 05/17/1999
SB 2234 (1998) Attorney: Patrick Kusiak Sponsor: Franchise Tax Board
SB 1229 (1999)

SUBJECT: AB 3086 Clean-Up/Definition of Wages

SUMMARY OF BILL

Under the Unemployment Insurance Code (UIC), this bill, sponsored by the Franchise Tax Board, would specify that the definition of wages for the purposes of the quarterly report includes all remuneration includable in gross income for services paid by an employer engaged in a trade or business to all employees, while maintaining the current definition of wages for withholding purposes to preserve current exceptions to withholding.

This bill also would clarify which amounts must be included in the Report of Wages by specifically including in the definition of wages amounts withheld from pensions, annuities, and other forms of deferred compensation.

SUMMARY OF AMENDMENT

The May 17, 1999 amendments clarified the inclusion in the definition of wages amounts withheld from pensions, annuities, and other forms of deferred compensation.

The department's analysis of the bill as introduced March 3, 1999, still applies in addition to the following analysis of the May 17, 1999, amendments.

EFFECTIVE DATE

The definition of wages provision would apply to taxable years beginning on or after January 1, 2000.

SPECIFIC FINDINGS

Assembly Bill 3086 (Stats. 1994, Ch. 1049) modified employer reporting requirements for wage information and Personal Income Tax (PIT) withholding to the Employment Development Department (EDD). AB 3086 amended the UIC to state that the Report of Wages shall include "individual amounts required to be withheld under Section 13020." Although UIC Section 13020 provides the general statutory requirement for withholding of wages and the method for computing the amount of withholding, the term "wages" generally is defined in UIC Section 13009. In addition to these sections, UIC Section 13028 provides that income from pensions, annuities, and other deferred income are "wages" subject to withholding generally upon the election of the recipient.

A problem arises because UIC Sections 1088 and 13021, which require the Report of Wages to be filed, do not specifically reference UIC Section 13028 for purposes of defining which "wages" must be included in the Report of Wages. In addition to other changes, AB 3086 did the following:

Board Position:

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Department Director

Date

Johnnie Lou Rosas

6/9/1999

1. Changed the name of the Quarterly Contribution Return to the Report of Contributions.
2. Eliminated the filing of the Annual Reconciliation of Personal Income Tax Withheld form and the submission of the state copy of the employees Wage and Tax Statements (W-2). In its place, an employer files an Annual Reconciliation Return, which reports cumulative amounts for total wages, employer contributions, State Disability Insurance contributions, and PIT withholding amounts.
3. Added individual PIT withholding amounts to the existing wage report requirements.

These changes were part of a joint planning effort by EDD and the department to improve the accuracy, responsiveness, accessibility, and effectiveness of both PIT and employment tax systems. The changes were intended to ease the reporting burden of California employers while enabling EDD to capture more complete and timely information.

This bill would amend UIC Sections 1088 and 13021 to specifically include Section 13028 in the cross-referenced amounts required to be withheld. Additionally, this bill would amend UIC Section 13028 to provide that pensions, annuities, and other deferred income shall be treated as payments of wages. Thus, this bill would clarify which "wages" must be included in the Report of Wages by specifically including amounts received from pensions, annuities, and other forms of deferred compensation.

Policy Considerations

The intent of AB 3086 (Stats. 1994, Ch. 1049) was to simplify the reporting requirements in the Report of Wages to capture complete wage and withholding amounts on a timely basis. Confusion exists among tax practitioners and pension managers as to which amounts are properly required to be included in the Report of Wages. This bill would remove those doubts and implement the intent of AB 3086 to simplify reporting requirements. In addition, the timely filed wage information is used by the department to automate withholding verification when income tax returns are processed.

Implementation Considerations

Implementing this provision would not significantly impact the department's programs and operations.

Fiscal Impact on State Budget

Departmental Costs

No departmental costs are associated with this provision.

Tax Revenue Estimate

This provision would not impact the state's income tax revenue.

BOARD POSITION

Support.

The Franchise Tax Board voted at its November 17, 1997, meeting to sponsor the language in this bill relating to AB 3086 clean-up.